

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MARKET TEST OF EXPERIMENTAL PRODUCT-
FIRST-CLASS TRACER

Docket No. MT2012-1

NOTICE OF THE UNITED STATES POSTAL SERVICE OF
MARKET TEST OF EXPERIMENTAL PRODUCT – FIRST-CLASS TRACER
(November 7, 2011)

Pursuant to 39 U.S.C. 3641, the United States Postal Service hereby gives notice that it intends to conduct a test of a proposal for an experimental market dominant product, provisionally named “First-Class Tracer.” First-Class Tracer is a letter visibility service offering that will provide customers with information on the transportation and processing of their First-Class Mail letters. The market test, which will begin on or shortly after December 7, 2011, will consist of retail distribution and sales of First-Class Tracer to consumers in certain test locations. The market test will also entail research to gain information about the market for this experimental product.

With this market test, the Postal Service will be leveraging existing product design, development, and distribution resources. Revenue for First-Class Tracer will be received from consumers as part of the market test, and the Postal Service will be testing different prices in the test locations. The expenses for the test will be considered research and development costs incurred by the Postal Service in connection with new product development. The companies involved in production and distribution of the product will be compensated through existing contracts and terms.

Subchapter III of Chapter 36, Title 39, United States Code, establishes authority for the Postal Service to conduct market tests of experimental products. This notice provides the information required by 39 U.S.C. 3641(c).¹ Pursuant to that provision, the Postal Service is also filing notice of this market test in the Federal Register.

Description of Nature and Scope of Experimental Product

Consumers are constantly looking for ways to obtain information about the status of the mail they send. The Postal Service believes that visibility is in high demand by commercial mailers, and that individual customers will also value visibility for their First-Class Mail. Therefore, the Postal Service is exploring the possibility of offering limited visibility into the processing of single-piece First-Class Mail through First-Class Tracer. First-Class Tracer is a barcoded label that customers may apply to letters prior to mailing. The First-Class Tracer label is scanned by existing mail processing equipment during processing. All sorting equipment capable of performing a secondary delivery process sort will be capable of scanning the First-Class Tracer label. We expect First-Class Tracer labels to be scanned about two times for local mail and more than two times for mail pieces travelling between plants to their destinations. The labels will not receive a delivery scan. Customers will keep the portion of the label that contains the tracing number and a QR Code. An example of a First-Class Tracer label affixed to a mail piece can be found in Figure 1 below. Limited scan data will be made available to consumers through USPS.com either by inputting the tracing number at the Track and

¹ As of this filing, the Commission has not established regulations creating specific procedures to implement Section 3641.

Confirm section of usps.com, or by scanning the QR Code with an enabled mobile device.

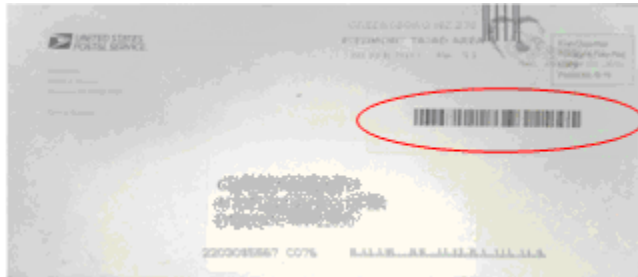


Figure 1 – Example of First-Class Tracer label affixed to a mail piece

During the First-Class Tracer market test, the Postal Service will generate revenue from retail transactions. The product will be offered in two packages, a five-label pack, or a ten-label pack. The Postal Service plans to test per-label prices of about \$0.20, \$0.30, and \$0.40 (specifically sold at \$0.99, \$1.49, and \$1.99 for 5-packs, and \$1.99, \$2.99, and \$3.99 for 10-packs), but may test other prices. The Postal Service may expand to different pre-packaged quantities or sales channels, depending on early testing results.

The Postal Service plans to test First-Class Tracer at 50 retail locations around the Washington, DC metropolitan area. Retail locations that already carry gift and greeting cards have been chosen as test locations. The test will run for two calendar years, unless the Postal Service decides to request an extension for an additional year, establish First-Class Tracer as a permanent product on a quicker timeline, or terminate the test early. The market test will allow the Postal Service to gain experience with the product and better understand the value of the product to postal patrons, in advance of

determining whether it should be placed on the market dominant product list under 39 U.S.C. § 3642.

Consistency with Section 3641 Criteria

Section 3641 provides the criteria that a market test must meet. As explained below, the Postal Service has determined that the First-Class Tracer market test would satisfy these requirements:

- The product is significantly different from all products offered by the Postal Service within the two-year period preceding the start of the test (Section 3641(b)(1)).
- The introduction or continued offering of the product will not create an unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer, particularly in regard to small business concerns (Section 3641(b)(2)).
- The Postal Service correctly identifies the product as market dominant (Section 3641(b)(3)).
- The duration of the market test will not exceed 24 months, unless the Postal Service requests an extension from the Commission (Section 3641(d)(1)).
- The annual revenues received by the Postal Service from this market test are not anticipated to exceed \$10,000,000 (as adjusted for inflation) in any fiscal year (Sections 3641(e), (g)).

Significantly Different Product

The Postal Service has never offered a retail-only letter tracing product. As noted earlier, First-Class Tracer provides visibility into mail processing and transportation, which differs in usage and function from other Special Services currently offered. Additionally, First-Class Tracer will be available only at retail, which is an important distinction from Confirm service, which is limited to commercial customers. It is important to note that First-Class Tracer does not provide delivery scan information, unlike existing Postal Service services such as Delivery Confirmation and Certified Mail. The Postal Service believes these differences to be significant and worthy of testing in the market place.

No Inappropriate Market Disruption

There is no reasonable expectation that the Postal Service's First-Class Tracer offering would create an “unfair or otherwise inappropriate” competitive advantage for the Postal Service or any mailer, with regard to any other party (including small businesses). This experimental product will simply provide individual retail customers with the opportunity to trace First-Class Mail letters through the mail stream. As this product applies to a market dominant product, First-Class Mail letters, it will have a minimal competitive impact and will essentially serve as an additional option for retail First-Class Mail letter customers.

Correct Characterization as Market Dominant

The Postal Service considers this experimental product to be market dominant, because First-Class Tracer labels are designed for placement on First-Class Mail letters, which are included on the market dominant product list.

Duration of Market Test

The market test will begin on or shortly after December 7, 2011. The test will run for two calendar years, unless the Postal Service decides to request an extension for an additional year, establish First-Class Tracer as a permanent product on a quicker timeline, or terminate the test early.

Total Revenues from Market Test

Based on expected sales, the total revenue received by the Postal Service should not exceed the \$10,000,000 threshold in any fiscal year, as adjusted for inflation pursuant to Section 3641(g). This test will be conducted between December 2011 and December 2013, meaning it will be conducted in part of FY 2012, all of FY 2013, and part of FY 2014. The Postal Service does not project that it will earn revenue exceeding \$10,000,000 in any of these fiscal years.

Data Collection Plan

The Postal Service will monitor sales transactions through our retail channel to measure consumer usage of First-Class Tracer. Both volume and revenue data will be

available through existing retail reporting systems. The Postal Service is prepared to report on the results of its research to the Commission.

To better understand this experimental product, the Postal Service plans to collect:

- volume sold at each retail location
- total revenue generated per test location

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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